

# INDIAN IT, AI & ITES INDUSTRY

J P Chawla & Co. LLP  
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## Introduction to Indian IT, AI and ITES sector

The IT, AI, and ITES industry comprises of software products, engineering services, IT services, Business Process Management (BPM), and hardware. The industry is undergoing rapid evolution and is reshaping business operations in a big way. While it made a modest beginning in 1991 with export revenue of about USD 100 million (Rs. 716.82 crores), the figure has reached USD 137 billion (Rs. 9,82,187.25 crores) in 2019. Increased internet penetration, expected to reach 666.4 million by 2023, is transforming India into a digital economy. This massive demand for data and data-led services has further fuelled the need for personalization, customization, which is the driver for the growth of IT, AI, and ITES industry.

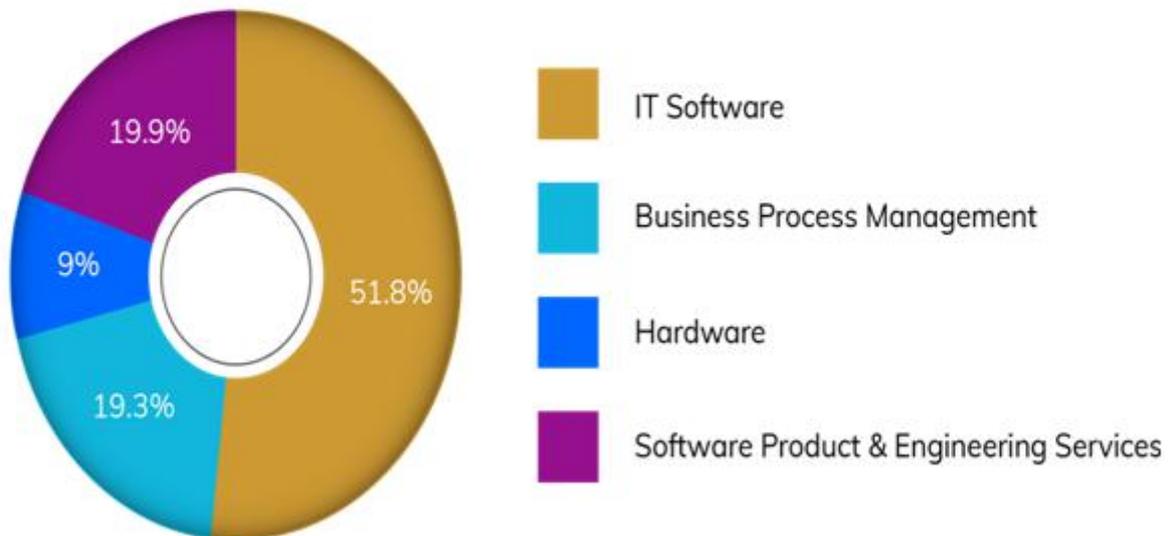
## Indian Advantage

India is the focal point of global IT, AI, and ITES sector. With a training expenditure of USD 1.6 billion (Rs. 11,471.92 crores) each year, it is the hub of digitally skilled workforce for global sourcing. The cost-effectiveness (at least five times less expensive than US companies) lends India a privileged position in the global sourcing market. Of the total global sourcing market of USD 185-190 billion (Rs. 13,62,290.50 crores) in 2017-2018, India boasts of a market share of 55%. This share makes the country a leader among sourcing destinations in the world. Indian IT, AI, and ITES companies have a presence in over 80 countries across the globe. About 75% of the global talent in the IT, AI, and ITES sector is present in India, making it the most talent-rich country in the world.

## Market Overview

The IT, AI, ITES industry in India reached an unprecedented USD 181 billion (Rs. 12,97,760 crores) in 2018-19 and is expected to reach USD 350 billion (Rs. 25,08,957.50 crores) by 2025. The IT industry's contribution to India's GDP was 7.7 % in the year and is expected to reach 10% by 2025. The sector employs over 3.97 million professionals and is expected to hire over 250000 in 2019. The industry upskills and reskills over 50% of the workforce each year. Industry exports scaled new heights, reaching USD 137 billion (Rs. 9,82,077.65 crores) in 2019. USD 44 billion (Rs. 3,15,411.80 crores) was the total domestic revenues generated by the industry in the same year. The exports from hardware are expected to rise by 7-8% in 2019. The sector has witnessed over 4750 technology start-ups, with over 1500 start-ups in the year 2018, making India the third-largest start-up base in the world. Disruptive information technology and technology-enabled services upsurged in 2018. Taking cognizance of this rise, the government has sanctioned USD 942 million (Rs. 6,654 crores) for this sector in the Union Budget 2019

### Sector Wise Breakup of Indian IT Market (US\$ Billion) FY18



#### Latest Trends and Strategies

**Increased interest in Artificial Intelligence (AI):** IT companies are focusing on the building of AI investments and strategies to expand revenues. Expenditure by Indian IT companies on AI solutions is expected to increase by 8-10% by 2019. According to Gartner Inc., revenue generated from AI is estimated to reach USD 3.9 trillion (Rs. 2,79,39,405 crores) in 2022.

**Internet of Things (IoT):** IoT Solutions is becoming popular across sectors like freight and transport, farming, manufacturing, smart infrastructure, asset management, and smart utilities. According to Gartner, IoT devices will reach a figure of 26 billion by 2020, and the expenditure on IoT will reach USD 1.4 trillion (Rs. 1,00,29,530 crores) by 2021.

**Open Source, Open Data for Business Intelligence (BI):** The spotlight is on AI, deep learning, Machine Learning (ML), virtual assistants, predictive analytics, chatbots, and neural networks. Enterprises need massive, diverse data to run ML. The year ahead will witness the emergence of 'open data' for sharing and aggregation. Cost-effectiveness and security are two significant benefits of open data over private data sources. Projects like Community Data License Agreement (CDLA) or enablers of data sharing will multiply in the coming years, increasing the accuracy and usage of machine learning.

**Blockchain technology applications beyond finance:** Blockchain technology is a virtual ledger that records and verifies high volume digital transactions. Blockchain will find applications in industries other than finance, viz, banking, insurance, healthcare, retail, education, supply chain management, government and public records, wills and inheritances, law enforcement, HR, etc.

**Augmented Reality (AR):** Augmented Reality has received serious commercial support from Google, Amazon, Apple, Facebook. By 2023, over 2.5 billion people will be users of AR supported devices. AR-enabled mobiles, WebAR or AR-enabled websites, shopping technologies, automotive industry, indoor navigation, and AR solutions for enterprises like military and medical are some of the latest advances. Combining AR with Machine Learning (ML) will enable retailers to identify customer preferences and recommend options.

**Big data Analytics:** Big data analytics trends are inclining toward a business-driven approach and adopting agile technologies with more emphasis on advanced analytics. With Big Data in the Cloud, data for business insights are available to business houses irrespective of their size.

**Cloud Computing:** Cloud application services (SaaS) and cloud system infrastructure services (IaaS) are the fastest-growing segments in IT, AI, and ITES industry. Increased focus on Customer Relationship Management (CRM) is driving companies to adopt SaaS and increase cost efficiency and agility.

### Strategies and developments:

- The Banking and Financial Services Sector (BFSI) is adopting new IT technologies at a rapid pace. Revenue for the IT, AI, ITES industry from this vertical reached 6.80% y-o-y between July and September 2018.
- Training and upskilling of IT professionals remain topmost on Nasscom agenda. Over 2 million professionals are being upskilled, and another 2 million trained at their newly launched online platform for the purpose.
- Fuelled by the growing maturity of the IT-BPM industry, Global In-house Centres (GIC's) are gaining strategic importance. GIC's are transforming into thought leaders, focusing on high-value activities, and contributing to enterprise transformation. Over 1140 GIC's operate in India as of March 2018.

In keeping with India's position as a leading IT destination globally, the government has taken several initiatives for the growth of this industry.

- The government has set up a fund of USD 708 million (Rs. 5,075.68 crores) to realize the capacities of 12 champion service sectors, with IT, AI and ITES sector being one of them.
- NITI Aayog set up a national-level program, as a part of Union Budget 2018-19 to utilize AI technology for development across sectors.
- The Interim Budget of 2019-2020 announced the setting of a national plan and a portal for AI.

- To foster the development of India as a software product nation, the Union Cabinet passed the National Policy on Software Products 2019.
- Government has extended tax rebates to the IT sector for Software Technology Parks in India (STPI) and Special Economic Zones (SEZ).

### Growth Drivers

Ecommerce market has grown phenomenally in recent years and is expected to reach USD 200 billion by 2026. India has 525.3 million internet subscribers in 2019, estimated to reach 666.4 million by 2023. This thrust on digitalization of the economy has fuelled the growth of the IT, AI, and ITES sector. The sector is expected to grow at 9-12% CAGR between 2018 and 2021. Projects like National Digital Literacy Mission, e Kranti, and Smart Cities are providing a boost to the sector. The Digital India Campaign has further fired the growth of digitalization of India with broadbands, public internet, and universal mobile access. The 4750 technology start-ups in India operating in India is another driver for growth. The start-up revolution has directly impacted the market for Artificial Intelligence (AI), Machine Learning (ML), Internet of Things (IoT) and Healthcare technology. The Social, Mobile, Analytics, and Cloud (SMAC) market is further powering the growth in the Business Processing Management segment.

### Investment Opportunities

The extraordinary potential and competencies of the sector have attracted investors from across the globe. According to Department for Promotion of Industry and Internal Trade (DPIIT), the software and hardware sector obtained a total Foreign Direct Investment (FDI) of USD 37.23 billion (Rs. 2,66,903.73 crores) between April 2000-March 2019. IT firms across the board are competing to expand the range of offerings in blockchain and artificial intelligence. In the last quarter of 2018, the industry received Private Equity of USD 2400 million (Rs. 17,205.72 crores) and Venture Capital investments of USD 53 million (Rs. 379.95 crores). HCL technologies is buying select IBM products for USD 1.8 billion (Rs. 12,899.61 crores). Coal India has invested USD 39 million (Rs. 279.49 crores) in Tech Mahindra for the deployment of modern technologies.

### Major Players

**Tata Consultancy Services (TCS):** TCS employs about three lakh professionals. It offers services in Business Process Service, Performance Management, Enterprise Solutions, Consulting, IT Services, and iON Small and Medium Enterprise. TCS has been ranked as No.1 among IT service providers in Europe, Middle East and Africa by International Corporation.

**Infosys:** Infosys is a powerhouse IT company employing over 175000 individuals. It offers expertise in the fields of information technology, business consulting, software engineering, and outsourcing services. It features among the top 20 global most innovative companies list by Forbes, as well as Newsweek's list of top green companies.

**Wipro:** With a workforce of over 1,50,000, Wipro is one of the most preferred vendors in the IT sector. Selected by DJSI as World Member and recognized with the Golden Peacock Award in 2014, it is one of the largest IT companies in the world.

**HCL Technologies:** HCL has a presence in Custom Application Services, Engineering R&D, Business Services, IT Infrastructure Management, and Enterprise Transformation Services. Declared as a leader in IDC SAP Marketplace and Cloud Services Marketplace, it boasts of infinite global strategic alliances across geographies and verticals.

**Tech Mahindra:** Present in over 51 countries, Tech Mahindra has expertise in fields like SEI CMMi Level 5, OrderFix, Tecnico, OrderVu, mEMS, and Socio. It has been the recipient of the Golden Peacock Award in IT Excellence.

### Road Ahead

India's unique position as the most preferred outsourcing destination for IT companies in the world is expected to continue for a long time. Demand from newer verticals will propel the export revenues of Indian IT companies. Indian IT companies have proven their onshore and offshore delivering capability. This realization has put Indian companies as the frontrunner for emerging technologies. The industry is estimated to reach USD 350 billion (Rs. 21,49,935 crores) by 2025 from USD 137 billion (Rs. 9,81,803.65 crores) in 2019.



### Conclusion

The IT, AI, and ITES industry is the backbone of the Indian economy. With an unmatched talent pool, growing investments, an enormous number of start-ups, tech applications across several verticals, the Indian-advantage and governmental boost with reformative policies and initiatives, the industry is poised for immense growth over the next decade.

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**With Best Regards,**

**Team JPC**

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